

# **CORPORATE INCOME TAX CREDIT FOR CONTRIBUTIONS TO SCHOOL TUITION ORGANIZATIONS**

## **REPORTING FOR 2006**

Arizona's corporate income tax credit for contributions to school tuition organizations is governed by A.R.S. § 43-1183. School tuition organizations (STOs) must report the following information to the Arizona Department of Revenue by June 30:

1. The name, address and contact name for the STO.
2. The number of contributions received in the previous calendar year.
3. The dollar amount of contributions received in the previous calendar year.
4. The number of children awarded scholarships or grants during the previous calendar year.
5. The dollar amount of scholarships and grants awarded during the previous calendar year.
6. The name and address of each school receiving the scholarships or grant money, along with the number and dollar amount of scholarships or grants provided to each school.
7. Verification that an independent review of financial statements according to generally accepted accounting principals (GAAP) was completed by a certified public accountant for the previous calendar year.

The Arizona Department of Revenue was aware of 56 STOs operating in Arizona in 2006. Seventeen of these STOs participated in the corporate tuition tax credit program in 2006.<sup>1</sup>

### **DONATIONS**

For calendar year 2006, \$7,263,300 was donated by 87 corporations to 17 STOs.<sup>2</sup> Corporate donations ranged from \$100 to \$1,500,000<sup>3</sup>. The Catholic Tuition Organization of the Diocese of Phoenix received donations from 27 corporations for a total of \$2,462,800. Two STOs,

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<sup>1</sup> More restrictive requirements for scholarships recipients of corporate tuition tax credit money and the CPA review may have resulted in the limited participation.

<sup>2</sup> There were actually 93 donations. Four corporations donated to the same STO twice; one corporation donated to an STO three times.

<sup>3</sup> Confidentiality guidelines prohibit the Arizona Department of Revenue from releasing the names of donating corporations.

the Foundation for Montessori Scholarships and the School Tuition Association of Yuma, each received only one corporation donation for \$2,500. The following table shows the number and amount of donations received by each STO.

### **2006 Corporate Donations**

<b>School Tuition Organization</b>	<b># of Donors</b>	<b>Total Donations</b>
Arizona Episcopal Schools Foundation	1	\$200,000
Arizona School Choice Trust	4	\$1,005,000
Brophy Community Foundation	12	\$534,000
Catholic Tuition Organization of the Diocese of Phoenix	27	\$2,462,800
Catholic Tuition Support Organization of the Diocese of Tucson	17	\$2,352,000
Chaparral Mission Scholarship Fund	1	\$3,000
Cheder Scholarship Organization	1	\$200,000
Cochise Christian School Tuition Organization	1	\$135,000
Flagstaff Christian Scholarship Fund	3	\$110,500
Foundation for Montessori Scholarships	1	\$2,500
Institute for Better Education	4	\$40,000
Maricopa County Schoolhouse Foundation	1	\$30,000
New Valley Education Partners	1	\$5,000
Prescott Christian School Scholarship Foundation	3	\$26,000
School Choice Arizona	4	\$119,000
School Tuition Organization of Yuma	1	\$2,500
Tuition Organization for Private Schools	5	\$36,000

The corporate income tax credit for contributions to school tuition organizations is in effect until June 30, 2011, with limitations in statute as to the amount of credit that can be created in each fiscal year. In fiscal year 2007, the credit was limited to \$10 million. This report is for calendar year 2006, as opposed to fiscal year 2007. The donations that occurred in calendar year 2006 applied against the fiscal year 2007 limitation.

### **SCHOLARSHIPS**

The legislation creating this corporate income tax credit became effective on September 21, 2006. Therefore, the donations listed in the previous table were received between September 21, 2006 and

December 31, 2006. Given the limited amount of time involved, it is not surprising that few scholarships were awarded in 2006.

Additionally, recipients of corporate credit scholarship money are subject to strict guidelines, unlike recipients of individual credit scholarship money. Recipients of corporate scholarships must meet the following guidelines:

1. Family income cannot exceed 185% of the income limit required to qualify a child for reduced price lunches under the national school lunch and child nutrition acts. This equates to a family income of \$68,450 for a family of four in 2006.
2. The student receiving the scholarship must meet one of the following:
  - a. Attended a governmental primary or secondary school full-time for at least 100 days of the prior fiscal year and then transferred to a qualified private school.
  - b. Enroll in a qualified private school in a kindergarten program.
  - c. Received a scholarship under one of the two previous guidelines and continues to attend a qualified private school in a subsequent year.

Only three STOs reported scholarships awarded in 2006. These three STOs reported 35 scholarships totaling \$49,380.

### **2006 Corporate Scholarships**

<b>School Tuition Organization</b>	<b># of Recipients</b>	<b>Scholarship Amount</b>
Cheder Scholarship Organization	4	\$15,700
Cochise Christian School Tuition Organization	30	\$29,580
Institute for Better Education	1	\$4,100

The scholarship money went to three schools, two in Tucson and one in Lakeside.

## Private Schools Receiving 2006 Corporate Scholarships

Private School	# of Recipients	Total Scholarship Amount
Desert Christian High School	1	\$4,100
Mountain Christian	30	\$29,580
Tucson Hebrew Academy	4	\$15,700

### **CPA REVIEW**

STOs that participate in soliciting corporate contributions are subject to a CPA review that is not required with the individual contributions. On the form on which STOs report the statutorily-required information, there is a place for a certified public accountant to sign, indicating that the required review took place.

The CPA review was reported as complete by eight STOs. The remaining nine STOs reported that their CPA review was in progress or pending.

School Tuition Organization	CPA Review Complete	CPA Review Pending
Arizona Episcopal Schools Foundation	X	
Arizona School Choice Trust	X	
Brophy Community Foundation		X
Catholic Tuition Organization of the Diocese of Phoenix	X	
Catholic Tuition Support Organization of the Diocese of Tucson		X
Chaparral Mission Scholarship Fund		X
Cheder Scholarship Organization		X
Cochise Christian School Tuition Organization		X
Flagstaff Christian Scholarship Fund	X	
Foundation for Montessori Scholarships		X
Institute for Better Education	X	
Maricopa County Schoolhouse Foundation	X	
New Valley Education Partners		X
Prescott Christian School Scholarship Foundation		X
School Choice Arizona	X	
School Tuition Organization of Yuma		X
Tuition Organization for Private Schools		X

A few STOs have contacted the Arizona Department of Revenue indicating that the cost of the independent review is fairly substantial for an STO that is only participating in the corporate program to a small degree. More than one of these STOs have stated that the corporate donations received by them may be returned if a less-expensive alternative for the review process cannot be found.